

Message Text

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PAGE 01 BONN 11679 141803Z
ACTION FRB-01

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 PRS-01 /096 W
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FM AMEMBASSY BONN
TO SECSTATE WASHDC 9841
DEPARTMENT TREASURY
INFO AMCONSUL FRANKFURT

UNCLAS BONN 11679

DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: BUNDESBANK LOWERS LOMBARD RATE

1. AT TODAY'S CENTRAL BANK COUNCIL MEETING, ATTENDED BY FINANCE MINISTER APEL, IT WAS DECIDED TO LOWER THE LOMBARD LENDING RATE FROM 4.5 PERCENT TO 4.0 PERCENT, EFFECTIVE JULY 15. AT THE SAME TIME, THE COUNCIL ANNOUNCED THAT THE SPECIAL REDISCOUNT FACILITY WHICH HAD BEEN TERMINATED ON MAY 31 AND SUBSEQUENTLY REOPENED JULY 6 WOULD CONTINUE TO BE AVAILABLE. HOWEVER, THIS FACILITY, WHICH ALLOWS BANKS IN EXCESS OF NORMAL REDISCOUNT QUOTAS TO DISCOUNT BILLS FOR A FIXED PERIOD OF 10 DAYS, WILL HENCEFORTH COST 3.75 PERCENT INSTEAD OF THE PREVIOUS 4.0 PERCENT. (ACCORDING TO THE BUNDESBANK BALANCE SHEET FOR THE WEEK ENDING JULY 7, BANKS HAD ALREADY BORROWED DM 2.8 BILLION UNDER THIS FACILITY.)

2. CONCERNING THE REDUCTION, BUNDESBANK PRESIDENT
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EMMINGER COMMENTED THAT THE ACTION WAS TAKEN PRIMARILY BECAUSE OF FOREIGN ECONOMIC DEVELOPMENTS, PARTICULARLY THE SHARP REDUCTION IN THE U.S. DOLLAR EXCHANGE RATE IN THE PAST WEEK. ACCORDING TO EMMINGER, THE REDUCTION WAS TAKEN IN CLOSE COOPERATION WITH OTHER CENTRAL BANKS, ESPECIALLY THE SWISS CENTRAL BANK, WHICH, HE SAID, TODAY ALSO REDUCED ITS DISCOUNT AND LOMBARD RATES BY A

HALF PERCENTAGE POINT.

3. WITH THESE CHANGES THE BUNDESBANK HAS
CONCENTRATED RATES CHARGED IN ITS CREDIT GRANTING
FACILITIES WITHIN THE NARROW RANGE OF 3.5 PERCENT
(NORMAL REDISCOUNT RATE) TO 4.0 PERCENT. AS
A RULE, IN RECENT YEARS THE SPREAD BETWEEN THE
REDISCOUNT AND LOMBARD RATES IS AT LEAST 1.0 PERCENT
AND OFTENTIMES EVEN LARGER. SINCE 1948,
ONLY IN THE PERIOD AUGUST 1967 - MARCH 1969 HAS THE
SPREAD FALLEN BELOW 1.0 PERCENT.
CASH

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